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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 004439

SIPDIS

DEPARTMENT PASS AIT/W, INR/EAP

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TAGS: [PGOV](#) [PINR](#) [TW](#)

SUBJECT: THE KAOHSIUNG METRO SCANDAL: HOW HIGH WILL THE DAMAGE REACH?

REF: A. (A) TAIPEI 4158

[B.](#) (B) TAIPEI 3793

[C.](#) (C) TAIPEI 4353

Classified By: AIT DIRECTOR DOUGLAS PAAL, REASON(S): 1.4(B/D)

[11.](#) (C) SUMMARY. THE SCANDAL OVER THE KAOHSIUNG METRO THAT BEGAN WITH A RIOT BY THAI LABORERS HAS LASTED FAR LONGER THAN THE NORMAL TAIWAN MEDIA CYCLE OF 72 HOURS. SOME ARE BEGINNING TO SPECULATE IT MAY EVEN FORCE THE RESIGNATION OF TAIWAN'S PRESIDENT. CHARGES OF CORRUPTION AND DAILY REVELATIONS OF WHO MAY HAVE BEEN INVOLVED IN THE KAOHSIUNG RAPID TRANSIT CORPORATION (KRTC) SCANDAL (REF C) OR OTHER INCIDENTS OF ALLEGED CORRUPTION, SEEM NOW TO HAVE PERSUADED MANY IN SOUTHERN TAIWAN THAT THE DPP IS RIFE WITH CORRUPTION AND IT REACHES ALL THE WAY TO THE TOP. END SUMMARY.

[12.](#) (C) ON OCTOBER 27, LONG TIME AIT/K CONTACT PAUL CHEN TOLD AIT/K HE AND SOME OF HIS MOST INFLUENTIAL CONTACTS BELIEVE THAT PRESIDENT CHEN SHUI-BIAN WON'T LAST MUCH LONGER IN HIS POSITION. HOWEVER, HE SAID, THE JUSTICE SYSTEM WILL NOT PUSH HIM OUT BECAUSE JUSTICE CAN'T REACH HIM. WHAT WILL DEPOSE HIM, SAYS CHEN, ARE INTERNAL PARTY POLITICS, BUSINESSMEN, A DEPRESSED ECONOMY, AND THE FIRMLY HELD BELIEF THAT THE CORRUPTION IN THE PARTY REACHES ALL THE WAY TO THE TOP. ALTHOUGH NOT SPECIFIC, CHEN STATED THAT "SOMETHING IS GOING ON" IN THE DPP THAT WILL PUSH CHEN SHUI-BIAN TO STEP DOWN. CHEN FURTHER PREDICTED THAT CHEN SHUI-BIAN WILL BE GONE BY MAY 20TH. IF HE IS, THERE WILL BE A BY-ELECTION. IF HE LEAVES AFTER MAY 20TH, VICE PRESIDENT ANNETTE LU WOULD TAKE THE OFFICE OF PRESIDENT TO SERVE OUT CHEN'S TERM.

[13.](#) (C) WHILE THIS MIGHT BE IDLE SPECULATION COMING FROM THE MAN ON THE STREET, PAUL CHEN IS IN A POSITION TO KNOW FAR MORE THAN THE AVERAGE PERSON. AS SON OF A FORMER KAOHSIUNG CITY MAYOR AND A MEMBER OF THE SECOND WEALTHIEST FAMILY IN TAIWAN, HIS SOCIAL CIRCLES IN THE SOUTH INCLUDE POLITICIANS OF ALL STRIPES. AS A BUSINESSMAN, PAUL CHEN HAS BROAD ASSOCIATIONS AROUND TAIWAN WITH BOTH KMT AND DPP BUSINESS PEOPLE. AS A PHILANTHROPIST AND CHAIR OF THE CHEN FAMILY'S CULTURAL FOUNDATION, HE IS TIED INTO CULTURAL AND ACADEMIC CIRCLES THROUGHOUT THE SOUTH. HIS REPUTATION FOR BEING QUIET, CIRCUMSPECT AND GENERALLY UNWILLING TO DISCUSS POLITICS, IS WELL KNOWN. HOWEVER, THIS TIME PAUL CHEN STARTED THE CONVERSATION ABOUT CHEN SHUI-BIAN'S TROUBLES AND KEPT IT GOING.

[14.](#) (C) PAUL CHEN'S SUGGESTION PARALLELS WITH AN EARLIER PREDICTION MADE TO AIT/K BY PROFESSOR YANG TZE-CHUANG, AN ECONOMICS PROFESSOR AT CHENG GONG UNIVERSITY (REF C), WHO SAID THAT PREMIER FRANK HSIEH WOULDN'T LAST IN OFFICE PAST MAY 20TH. ON SEPTEMBER 30, YANG INDICATED CHEN SHUI-BIAN WOULD PUSH HSIEH OUT IN ORDER TO BLAME HSIEH FOR THE SHORTCOMINGS OF THE DPP ADMINISTRATION. SUCH A MOVE, SAYS YANG, IS CONSISTENT WITH PRESIDENT CHEN'S PERSONALITY (I.E., HE CAN BE A GOOD FRIEND, BUT HE DOESN'T KNOW HOW TO SOLVE ADMINISTRATIVE PROBLEMS).

[15.](#) (C) THE POSSIBLE FORCED DEPARTURE OF CHEN SHUI-BIAN SEEMS MORE PLAUSIBLE AS THE PLIGHT OF CHEN CHE-NAN, FATHER OF FORMER KAOHSIUNG MAYOR CHEN CHI-MAI AND FORMER SENIOR POLICY ADVISOR TO THE PRESIDENT, DEEPENS. CHEN CHE-NAN WAS EXPELLED OFFICIALLY FROM THE DPP ON OCTOBER 29 FOR POSSIBLY VIOLATING THE PUBLIC SERVICE ACT BY FAILING TO REVEAL FOREIGN TRAVEL WHILE SERVING IN AN OFFICIAL POSITION. IT IS A BREACH OF PROTOCOL FOR TAIWAN OFFICIALS TO TRAVEL ABROAD WITHOUT PERMISSION. THE FOREIGN TRAVEL MAY LINK CHEN CHE-NAN MORE CLEARLY TO THE KRTC SCANDAL (REFS B AND C), POSSIBLY BRINGING IT ONE STEP CLOSER TO PRESIDENT CHEN. CHEN CHE-NAN, WHO PREVIOUSLY DENIED TRIPS ABROAD, WAS PHOTOGRAPHED WHILE STILL PRESIDENT CHEN'S DEPUTY SECRETARY GENERAL GAMBLING IN KOREA WITH CHEN MIN-HSIEN, WHO IS NUMBER ONE ON THE HIT LIST OF CULPABLE CHARACTERS AS DEFINED BY THE OFFICIAL REPORT RELEASED ON OCTOBER 21 BY NOW-ACTING MAYOR YEH CHU-LAN. SEVERAL CONTACTS HAVE POINTED OUT TO US THAT GAMBLING IS RECOGNIZED HERE AS AN EASY WAY TO LAUNDER MONEY. FOLLOWING THE RELEASE OF THE OFFICIAL REPORT, CHEN MIN-HSIEN TOOK OUT PAID ADVERTISING IN MAJOR NEWSPAPERS DISPUTING THE REPORT'S CHARGES AND CLAIMED HE HAD EVIDENCE THAT WOULD PREVENT HIS BEING MADE THE "SCAPEGOAT" FOR OTHER OFFICIALS INVOLVED.

16. (C) PREMIER FRANK HSIEH, ON SEPTEMBER 8, CLAIMED DURING A TALK SHOW THAT HE HAD NEVER INTERFERED IN THE FORMATION OF THE BOARD OF THE KAOHSIUNG RAPID TRANSIT CORPORATION. PRESIDENT CHEN ANNOUNCED, WITHOUT ANY APPARENT PROVOCATION, ON OCTOBER 17, THAT HE HAD NO INVOLVEMENT IN THIS SCANDAL AND PROMISED THAT HE WOULD RESIGN IF HE WAS PROVEN TO BE INVOLVED. IN AN INTERVIEW WITH SANLIH ENTERTAINMENT TV, PRESIDENT CHEN OFFERED TO FOREGO HIS IMMUNITY RIGHTS IF THE DPP WOULD ADOPT THE "HIGHEST MORAL STANDARD" TO SET UP AN INDEPENDENT COMMISSION TO INVESTIGATE THE KRTC SCANDAL. PRESIDENT CHEN'S OCTOBER 30TH APOLOGY TO THE PEOPLE OF TAIWAN FOR CHEN CHE-NAN'S ACTIONS AND THE PRESIDENT'S ASSERTION THAT THE GOVERNING PARTY WOULD RE-EXAMINE ITSELF BASED ON THE "HIGHEST MORAL STANDARDS" HAS DONE LITTLE TO EASE THE ONGOING SPECULATION THAT THIS SCANDAL MAY EVEN MORE HEAVILY DAMAGE THE DPP.

17. (C) EVERY TIME ANYTHING HAPPENS TO CAST A SHADOW OF CORRUPTION ON CHEN CHE-NAN, PEOPLE IN KAOHSIUNG CONNECT IT WITH CHEN SHUI-BIAN. MUCH OF THE CONNECTION, SAY OBSERVERS, HAS BEEN GENERATED BECAUSE PRESIDENT CHEN HAS ALWAYS ACTED TO PROTECT CHEN CHE-NAN NO MATTER WHAT THE DIFFICULTY. LAST YEAR CHEN CHE-NAN STEPPED DOWN FROM HIS POSITION AS DEPUTY SECRETARY GENERAL OF THE PRESIDENTIAL OFFICE DUE TO A

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BUSINESS SCANDAL IN WHICH CHEN YOU-HAO, A BUSINESSMAN, FLED TAIWAN WITH LARGE AMOUNTS OF CASH BORROWED FROM TAIWAN BANKS. AFTER DEPARTING TAIWAN, CHEN YOU-HAO DIRECTLY NAMED CHEN CHE-NAN AS THE KEY FIGURE IN ARRANGING A MEETING BETWEEN CHEN YOU-HAO AND FIRST LADY WU SHU-CHEN THAT LATER RESULTED IN CHEN YOU-HAO'S MAKING A LARGE CONTRIBUTION OF MONEY TO THE DPP. AT THE TIME OF CHEN CHE-NAN'S RESIGNATION, RUMORS CIRCULATED IN KAOHSIUNG THAT THEN-ACTING MAYOR CHEN CHI-MAI, CHEN CHE-NAN'S YOUNGER SON, HAD BECOME THE "FRONT MAN" FOR HIS FATHER IN CARRYING OUT "FAVORS" FOR PRESIDENT CHEN. THIS YEAR, CHEN CHE-NAN STEPPED DOWN AS SENIOR POLICY ADVISOR TO THE PRESIDENT IN THE FACE OF HIS SON'S RESIGNATION AS KAOHSIUNG MAYOR AND DUE TO ALLEGATIONS THAT HE HIMSELF MAY BE INVOLVED IN THE KRTC SCANDAL. THE MOVE WAS WIDELY INTERPRETED IN THE SOUTH AS A DEFENSIVE MOVE BY PRESIDENT CHEN, WHO, IT IS SAID, SUGGESTED TO CHEN CHE-NAN THAT HE SHOULD RESIGN TO CONTAIN THIS SCANDAL.

18. (C) THE STRENGTH OF THIS LINKAGE BETWEEN PRESIDENT CHEN AND CHEN CHE-NAN AND THE EFFECT OF THAT RELATIONSHIP IS SUGGESTED BY A POLL RELEASED SUNDAY, OCTOBER 30, BY THE PRO-BLUE UNITED DAILY NEWS. THE STUDY FINDS 54 PERCENT OF RESPONDENTS SAY THEY DON'T BELIEVE PRESIDENT CHEN SHUI-BIAN WAS UNAWARE OF CHEN CHE-NAN'S ALLEGEDLY ILLEGAL BEHAVIOR. THE POLL ALSO FINDS THAT 60 PERCENT OF THE 1,117 RESPONDENTS WHO WERE INTERVIEWED BY PHONE SAY THEY HAVE LOST CONFIDENCE IN THE DPP TO RULE TAIWAN.

19. (C) ANOTHER FIGURE IN THIS WEB OF SCANDAL ALLEGATIONS IS CHEN CHI-YAO, SON OF CHEN CHE-NAN AND ELDER BROTHER TO FORMER ACTING MAYOR CHEN CHI-MAI. SINCE THE BEGINNING OF THIS SCANDAL, KMT LEGISLATOR LO SHI-HSIUNG HAS NOTED REPEATEDLY TO AIT/K THAT NO ONE IS LOOKING AT CHEN CHI-YAO, BUT THAT HE IS EQUALLY GUILTY IN THE CORRUPTION. LO CALLS CHEN CHI-YAO THE "CONDUIT" FOR ALL THE "BLACK GOLD" OR CORRUPT MONEY FLOWING INTO THE CHEN FAMILY FROM THE KRTC SCANDAL. ACCORDING TO LO, CHEN CHI-YAO IS NOT ONLY A GOOD FRIEND OF CHEN MIN-HSIEN, BUT ALSO OF MANY, MANY LOCAL KAOHSIUNG CONTRACTORS.

110. LO SHI-HSIUNG NOTED THAT EARLY ON KAOHSIUNG PROSECUTORS REQUESTED A WARRANT TO SEARCH CHEN CHI-YAO'S QUARTERS, BUT IT WAS DENIED BY A JUDGE WHO DEEMED IT "TOO POLITICAL" BECAUSE CHEN CHI-YAO LIVES IN THE FAMILY RESIDENCE ALONG WITH HIS FATHER. LO SAYS THE JUDGE REFUSED TO ISSUE THE WARRANT DUE TO FEARS THE SEARCH WOULD BE TAKEN AS A DIRECT IMPLICATION THAT CHEN CHE-NAN WAS INVOLVED IN THE CORRUPTION. ASKED WHY THE BROTHER HASN'T BEEN NAMED BY THE PRESS, LO SAID THE PAPERS FEAR A LIBEL SUIT SINCE THERE ISN'T ANY EVIDENCE AGAINST CHEN CHI-YAO AND, UNLIKE HIS FATHER AND YOUNGER BROTHER, HE IS NOT A PUBLIC FIGURE. (NOTE THE NOVEMBER 1 MORNING EDITION OF THE CHINA TIMES ON ITS FRONT PAGE ACTUALLY NAMES CHEN CHI-YAO AS ONE OF THE PLAYERS TO WHOM PROSECUTORS HAVE NOW EXPANDED THEIR INVESTIGATION. END NOTE.)

111. (C) DESPITE THE OCTOBER 21 OFFICIAL KAOHSIUNG CITY GOVERNMENT REPORT THAT CLEARS FORMER KAOHSIUNG MAYORS WU DUN-YI, NOW-PREMIER HSIEH CHANG-TING, AND CHEN CHI-MAI FROM ANY FAULT AS CIVIL ADMINISTRATORS IN THE KRTC SCANDAL, IT IS IMPOSSIBLE TO FIND ANYONE WHO IS BUYING THE ARGUMENT THAT THIS CORRUPTION DOESN'T TOUCH DPP POLITICIANS IN GENERAL. WITH THE EXCEPTION OF THE CHAIR OF THE INVESTIGATION, CURRENT ACTING MAYOR YEH CHU-LAN, WHO TOLD AIT/K ON OCTOBER 27 THAT THE REPORT IS TOTALLY UNBIASED AND DISMISSED ANY SPECULATION THAT PRESIDENT CHEN SHUI-BIAN OR PREMIER HSIEH WERE INVOLVED IN THE KRTC SCANDAL AS UTTER NONSENSE, THERE IS STILL WIDESPREAD DISPLEASURE WITH THE REPORT. FORMER MAYOR WU DUN-YI CURRENTLY A KMT LEGISLATOR AND WHO WAS EXONERATED BY THE REPORT, COMPLAINED THAT YEH'S REPORT FAILS TO MENTION MAJOR IRREGULARITIES IN THE KRTC SCANDAL. WU ALLEGES THAT

POLITICIANS AND BUSINESSES COLLUDED IN THE PROCUREMENT OF GRAVEL, FOR WHICH SAND WAS SUBSTITUTED CAUSING GROUND COLLAPSES AT KAOHSIUNG METROPOLITAN RAPID TRANSIT (KMRT) CONSTRUCTION SITES. YEH TOLD AIT THAT THE CITY HAS UNDERTAKEN SEVERAL CIVIL ENGINEERING SURVEYS TO CONFIRM THAT PROPER MATERIALS WERE USED AND THAT CONSTRUCTION WAS FULLY UP TO STANDARDS. LOCAL POLITICIANS AND LOCAL POLITICAL OBSERVERS BELIEVE THIS OFFICIAL REPORT IS A COVER-UP BY YEH FOR ANY ACTIONS HSIEH TOOK RELATED TO THE KMRT AND THE USE OF FOREIGN LABOR TO BUILD IT. THEY FURTHER SPECULATE THE "COVER-UP" IS THE ENTRY PRICE YEH MUST PAY TO BE NAMED AS HSIEH'S RUNNING MATE IN THE 2008 PRESIDENTIAL ELECTION, IF HSIEH EVER GETS THAT FAR. ACTING MAYOR YEH, HOWEVER, DENIES SHE HAS FURTHER POLITICAL AMBITIONS AND INSISTS SHE PLANS TO RETIRE AFTER HER WORK IN KAOHSIUNG IS DONE IN DECEMBER 2006 WHEN A NEW MAYOR WILL BE ELECTED.

112. (C) KMT LEGISLATOR LO SHI-HSIUNG COMPLAINED TO AIT THE KMT IS NOT TAKING ADVANTAGE OF THIS SCANDAL AND ITS WIDENING CIRCLE TO PUT FORTH A STRONG "DIRECTIONAL" MESSAGE FOR TAIWAN. COMPLAINING THAT CHAIRMAN MA YING-JEOU DOESN'T HAVE ENOUGH PEOPLE WHO KNOW WHAT IS GOING ON IN SOUTHERN TAIWAN, LO SAID HE HAS TRIED TO APPROACH CHAIRMAN MA TO TELL HIM TO PAY MORE ATTENTION TO THIS SCANDAL AND THE OPPORTUNITIES IT OFFERS THE PARTY IN THE SOUTH. UNFORTUNATELY, HE SAID, MA DOESN'T TRUST HIM, SINCE HE WAS A STRONG SUPPORTER OF WANG JIN-PYNG FOR THE RECENT KMT CHAIRMAN ELECTION.

113. (C) COMMENT: THIS SERIES OF ALLEGATIONS IS INDICATIVE OF THE GROWING SENSE AMONG MANY IN TAIWAN THAT THE DPP IS HEADING FOR A POSSIBLE CRISIS OF CORRUPTION. ALTHOUGH THE SUGGESTION THAT THE PRESIDENT MIGHT RESIGN IS DRAMATIC, THE SOURCE WHO SUGGESTED THE POSSIBILITY IS VERY CREDIBLE. THE STORY IS NOT OVER. AIT WILL BE SOUNDING OUT DPP LEADERS IN BOTH KAOHSIUNG AND TAIPEI TO SEE IF THEIR CONCERNS AND EXPECTATIONS TRACK THOSE OF PAUL CHEN. END COMMENT.
Keegan